Banc One to Offer Prodigy Service

Continued from *page* **1**

Citizens and Southern Corp., Atlanta, which has a merger pending with Sovran, pulled out of Prodigy last year.

But several large retail banks, including Manufacturers Hanover Trust Co. in New York, Wells Fargo Bank in California, Philadelphia National Bank, and now Banc One Corp., do participate in Prodigy.

Prodigy estimates that 60,000 homes in the Columbus, Ohio, area have personal computers and can use Prodigy to obtain banking, travel reservations, shopping, and other information services by the interactive method known as videotex.

Of those subscribers, 10,000 are potential Prodigy subscribers, according to John Russell, vice president and head of corporate communications at Banc One. He expects 3,000 to 4,000 will use Prodigy for home banking.

"It will take years before there's critical mass," said Mr. Russell. "It's not a program that will move market share, but customers will come to expect it."

Three False Starts

This is Banc One's fourth foray into video banking after three unsuccessful attempts in the late 1970s and 1980s.

"A single bank couldn't effectively operate a home banking service – it was too expensive and required too much overhead," Mr. Russell said. "We need a national system that you take part in but don't suppport."

In one of its earlier attempts to promote home banking, Banc One joined with several other holding companies in VideoFinancial Services, a transaction-processing company that failed to generate significant volume.

Mr. Russell believes that home banking will succeed in the long run if it is marketed under a broad umbrella like Prodigy, which provides a variety of videotex services to the mass market and is supported by the giants of the computer and retailing industries, IBM and Sears.

First Through Flagship

Banc One will first offer the service through its flagship subsidiary, Bank One Columbus, and then roll it out to other units.

Thirteen other banks, including Wells Fargo, Manufacturers Hanover, Midlantic National Bank, and Bank of New England, have signed agreements to use the Prodigy network for home banking services, according to Thomas Ponosuk, program manager for banking services at Prodigy.

He declined to speculate how many of the current 200,000 Prodigy subscribers are using the system for home banking, but said that according to market research, consumers rank home banking and shopping among the most desirable features.

"The interest in home banking is literally exploding here," said Michael Cuccinelli, senior vice president and cashier at NBD Woodfield Bank, Schaumburg, Ill. The bank is one of 8 NBD Bancorp subsidiaries in Illinois now offering home banking over the Prodigy network. NBD is the parent of National Bank of Detroit, which is also on the Prodigy roster.

Mr. Cuccinelli said he has 200 customers for the service, which became available last September. □

Freddie Mac Mutual Fund Soars Abroad

By PHIL ROOSEVELT

NEW YORK — Investors in the Far East and Europe have pumped $531 million into a fund that will buy mortgage securities of the Federal Home Loan Mortgage Corp., the agency said last week.

The fund, advised by a unit of the Blackstone Group, is the latest sign of increased overseas demand for U.S. mortgage securities. Foreign investors and other new buyers are considered critical for the stability of the market, which faces heavy selling by capital-short thrifts.

The fund, rumored since last fall, is similar to three that were set up last year to invest in securities of the Federal National Mortgage Association. Those three were sold mainly to investors in Japan.

Freddie Mac declared its fund to be "the first mortgage fund ever sold globally to institutional investors rather than targeted to investors in Japan."

Response from Six Countries

The agency said that 27 institutional investors in six countries have invested in the new fund. Salomon Brothers Inc. served as managing placement agent, and a unit of Salomon is strategic adviser to the Blackstone unit.

Overseas investment in the mortgage-backed securities market, though growing, remains very small, experts said. They explain that many overseas investors are uncomfortable with the instruments' unusual payment chacteristics.

Mutual funds such as the new one are thought to be more palatable to overseas investors than direct investment.

The Freddie Mac fund "is helping to attract a solid and lasting investor base around the world for our high-quality securities," Leland C. Brendsel, Freddie Mac's chairman and chief executive, said on Thursday.

Laurence D. Fink, chairman and chief executive of Blackstone Financial Management Inc., added, "The successs of the fund offering evidences a growing interest within the international investment community in the U.S. mortgage market." □

Survey for CBA Challenges Need for Lifeline Banking

Continued from *page* **1**

The association commissioned the Roper Organization, New York, to survey people who use check-cashing outlets instead of banks. More than two-thirds of them have relationships with financial institutions, the survey found, but willingly pay more for what they perceive as the convenience of check-cashing stores.

Therefore, the association said, low-income consumers are not victimized by price-gouging check cashers, as some legislators have claimed. These lawmakers are pushing a bill that would require banks to cash government checks at no charge to all comers.

"What we wanted to do and what we have done is to dispel some of the myths that check-cashing stores exist because banks have forced people out of their lobbies with high fees," said Joe Belew, president of the Arlington, Va.-based CBA.

Of 505 customers of check-cashing outlets in the CBA-Roper survey, 57% said they know they pay more for check-cashing services than they would or do pay to maintain a bank account. But more convenient hours and locations attract them.

Willing to Pay

In the CBA survey, 31% of the check-cashing services' customers said they had no bank account. And 31% of that group said they lacked money to maintain accounts; only 10% said banks "cheat" them with too many service charges.

Mr. Belew said the latter finding rebuts legislators' claims that consumer banking laws are needed because low- to moderate-income people can no longer afford banking services.

Roper did the survey last fall in Washington, New York, Miami, Chicago, and Los Angeles.

Consumer Advocates' Vow

The findings were released on the heels of a vow made in January by Sen. Howard Metzenbaum, D-Ohio, and the Consumer Federation of America. They promised an unprecedented effort to get Congress to require low-cost bank accounts and government check-cashing privileges for the poor.

The American Bankers Association has said that low-cost bank accounts are already available from 70% of banks in metropolitan areas – where most of the demand for such lifeline services would arise.

A spokesman for Sen. Metzenbaum said he would have no comment until he had reviewed the CBA survey. □

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Auction Notices

M. SKOLNICK DCA LIC # 79310 and/or S. GORELICK DCA LIC # 841437 Sell February 21, 1990 9:30 A.M. 2743 Stillwell Ave Bklyn 1985 Cadillac 4 Dr Sdn 1G6JG69P8FJ504367 Re: C. Rigby: 10:00 A.M. 2548 W. 13th St Bklyn 1988 Mercury Subn 1MEBM55U9JA602055 Re: Manufacturers Hanover WheelLease: 11:00 A.M. 234 Russell St Bklyn 1984 Ford 2 Dr Sdn 1FABP463XEA111661 Re: D. Everett: 11:30 A.M. 31-05 Queens Blvd Queens 1980 Dodge 4 Dr Sdn GM41CAG138403 Re: A.I. Dar: 12:00 P.M. 70-05 Northern Blvd Queens 1979 Pontiac 2 Dr Sdn 2J37Y92542613 Re: G. Millinger; 1986 Hyundai 4 Dr Sdn KMHLF31J4GU053710 Re: A. Cedron; 1980 Dodge 4 Dr H/B ZL44AAD174326 Re: E. Coulon: 12:30 P.M. 126-40 Northern Blvd Queens 1989 Yamaha Motorcycle JYA3LTC0XKA007242 Re: Y. Shigeru: 1:15 P.M. 130-07 Merrick Blvd Queens 1980 Buick 2 Dr Sdn 4M47WAG181557 Re: M. Costello: 1:15 P.M. 130-07 Merrick Blvd Queens 1985 Honda 4 Dr Sdn 1HGAD7421FA013213 Re: A. Tomlinson: 1:45 P.M. 90-25 Rockaway Blvd Queens 1982 Toyota Pick Up Truck JT4LN44D1C0079654 Re: G. Castellanos: 2:15 P.M. 250 Richmond St Bklyn 1985 Mercedes Benz 4 Dr Sdn WDBDA24D4FF039640 Re: E. Brown: 2:45 P.M. 350 Elton St Bklyn 1986 Pontiac 2 Dr Sdn 1G2NE27U7GC702213 Re: J. McCluskey: 3:15 P.M. 169 New Lots Ave Bklyn 1979 Mazda 4 Dr Sdn CB2MS543850 Re: B. O'Connor. Metropolitan Auctioneers, Inc. Published February 6, 1990 & Feburary 14, 1990.

William Cohen Auctr #792219 sells 9 AM on 2/22/90 at 3645 Dyre Ave Bnx '77 Timpte Trailer #41074 Re: U. Bass, '77 Kenworth #251558J Re: U. Bass; 10 AM at 3083 Webster Ave Bnx '77 Chevy #1H57U7B504746 Re: J. Millan; 11 AM at 1840 E. Tremont Ave Bnx '86 Nissan #1N4PB12S7GC772393 Re: Marine Midland Bank; at Noon at 1165 Garrison Ave Bnx '83 Toyota #JT2MX63E5D0026874 Re: R. Soto-E. Padro; 1 PM at 111-113 Erasmus St Bklyn '79 Olds #3V69R9M154869 Re: S. Pierre, '80 Olds #3N69YAX117139 Re: P. Herve, '78 Chevy #1L35U8J320272 Re: Y. Dorsainvil, '80 Buick #4Z573AE444754 Re: M. Pasco; 2 PM at 591 Hart St Bklyn '81 Datsun #JN1HU0155BT013189 Re: Y. Levit; 2:30 PM at 191 Montrose Ave Bklyn '81 Subaru #JF1AM43B3BC427497 Re: F. Petrowicz; 3 PM at 131-53 Sanford Ave Qns '87 Mercury #1MEBM53U1HA635208 Re: M. H. Tsiu; 4 PM at 30-15 Newtown Ave Qns '78 Chevy #1Z37U8B449543 Re: S. M. Hoffman. Published 2/6 & 2/13/90.

BERNARD MAGRILL CO., INC., 194 Broadway, Bklyn, N.Y., As Agents For Gem Pawnbrokers Queens Corp. At 216-15 Jamaica Ave., Queens Village, N.Y. Will Sell All Unredeemed Pledges #0001 10/16/87 To #12499 1/30/89 Also, Gem Pawnbrokers Manhattan Corp. 608 8th Ave., N.Y., N.Y. Will Sell All unredeemed Pledges #50638 8/10/87 To #26034 6/7/89 To Be Sold February 9th At 9 A.M. Queens Village Address.

C. LAUDISI & ASSOCS., INC., auct'rs sell February 21, 1990 at 10 AM at 101-08 43rd Ave., Qns 1978 Chevy #1W35M8D462717 Acct. A. Lopera; 11 AM at 70-11 50th Ave., Qns 1988 Dodge #1B3BD46K2JC149959 Acct. Command Security Corp.; 1989 Mitsubishi #JA7FJ43E0KJ008390 Acct. J. E. Perry 1987 Chevy #1G1JF11W2HJ166613 Acct. M. Adorno; 1975 Buick #4B69H5K112777 Acct. M. M. Slavska-Szulejko; 11:30 AM at 60-20 Northern Blvd., Qns 1982 Buick #1G4AV35N3CX118739 Acct. O. S. Meyer; 12 PM at 37-15 58th St., Qns 1989 Nissan #1N4GB22S3KC718037 Acct. S. J. Blair; 12:30 PM at 216-20 Hempstead Ave., Qns 1984 Toyota #JT2MX63E9E0063198 Acct. P. W. Bowrin; 1 PM at 112-03 14th Ave., Qns 1978 Ford #F37HECA1971 Acct. AB Towing & Storage Corp.; 2 PM at 29 Lincoln Ave., Qns 1980 Chevy #1N69JA1166626 Acct. B. Sencherey; 1980 Olds #3R47FA2472886 Acct. M. Macaro; 3 PM at 425 W. 59th St., NY 1987 Mitsubishi #JA7FJ23E8HJ033616 Acct. K. Yoon; 4 PM at 325 Exterior St., Bronx 1981 Cadillac #1G6AF3395B9196968 Acct. T. V. Liantonio. Published February 6 & 13, 1990.

DEFAULT In Security Agreement Made By Ramon Checo To Sea Crest Trading Of Connecticut Inc. I Will Sell Feb 7, 1990 at 1:30 PM at 764 4th Ave., Bklyn, NY Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. Frank E. Seipp, Auct'r Lic #732234 of F.E.S. AUCTIONS INC., As Agents.

Legal Notice

NOTICE OF PUBLIC SALE COOP APARTMENT PLEASE TAKE NOTICE THAT: pursuant to ARTICLE 9 of the Uniform Commercial Code, Neil Heaney, Auctioneer, DCA# 720956, will sell at public auction, with Reserve to the highest bidder at the front steps, Supreme Court Building, 851 Grand Concourse, Bronx, New York at 12:00 p.m. on February 20, 1990, 406 shares of stock of NETHERLAND GARDENS CORP. issued in the name of LAVELL JACKSON JR. and the Proprietary Lease for Cooperative Apartment 4B located at 5621 Netherland Avenue, Riverdale, New York 10471, between LAVELL JACKSON JR. as lessee and NETHERLAND GARDENS CORP., a Cooperative Corporation as lessor. The sale is subject to the approval of the successful bidder by the Cooperative Corporation, it By Laws, Rules and Regulations. This sale is held to enforce the rights of ATLANTIC BANK OF NEW YORK, as the secured party arising under a Security Agreement dated January 19, 1989 executed with LAVELL JACKSON JR., 5621 Netherland Avenue, Riverdale, New York. The Coop Apartment will be sold AS IS, and possession is to be obtained by purchaser(s). Dated: January 10, 1990 BERKMAN, HENOCH, PETERSON, PEDDY & SCARCELLA Attorneys For ATLANTIC BANK OF NEW YORK 777 Zeckendorf Blvd. Garden City, New York (516) 222-6200.

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Bankers Given Better News on Debt Guideline

By JOHN FORDE

NEW YORK — Although setting an accounting standard to mark certain debt investments to their market value is far from done, bankers are warily optimistic about news they're hearing from a key accounting group.

Based on early reports, the new guidelines will allow banks to hold debt securities at market value if they are likely to hold them for at least one year. The standard will also remove a test of bank intentions based on sales within the investment portfolio.

"It looks like a slight improvement, but it's still very unclear, and we won't know what it really means until the final rules come out for comment," said a controller at a major southeastern bank.

ANALYSIS *Follow-up on the news*

"It would seem a little more beneficial for the banks [than earlier drafts], but it could still have an impact," said Martin Baumann, a partner at Price Waterhouse & Co.

Threat to Long Bonds

Bankers and others had worried that the accounting rule could cause banks to jettison their long-term investment portfolios in favor of shorter-term securities. Such a switch would have serious implications, including making it more difficult for the Treasury to fund the deficit. Banks are major investors in long-term government debt.

The latest version of the guideline, called "Reporting by Financial Institutions of Debt Securities Held as Assets," was drafted after a sometimes stormy meeting several weeks ago of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants.

"Spirited debate" punctuated the meeting, said John L. Kreischer, committee chairman. However, the panel finally agreed by 14 to 1, with one abstention, to accept the new standard.

Bankers Still Opposed

Despite the improvements, from their standpoint, many bankers and others still oppose the guidance. Instead, they favor increased disclosure of the yields and maturities in investment portfolios, as well as of bank activities in selling these securities. The Securities and Exchange Commission has focused on improving disclosure of these activities in annual reports.

Wording of the document au-

See **BANKERS** *page* **19**

INSIDE NEWS

FINANCE

NCNB'S STOCK has fared as poorly as most bank issues in recent months, but it has shown greater than average volatility – perhaps the price of fame. *Page 24*

INTERNATIONAL

THE EUROPEAN Commission will push for liberalization of the banking laws of the United States, Japan, and other EC trading partners. *Page 14*

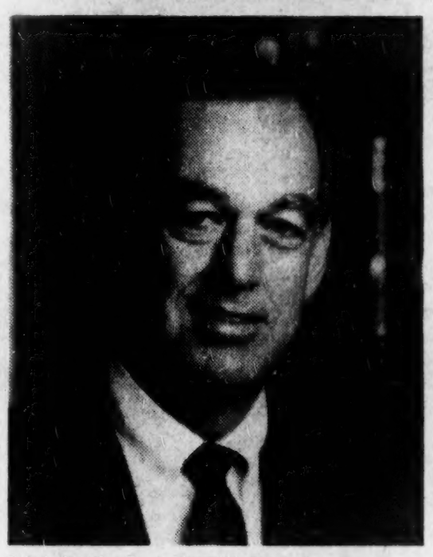
CONSUMER

MARK TWAIN Bancshares agreed to acquire the Alvery Bartlett Brokerage Co. and an affiliate, which will make it one of the largest brokers in St. Louis. *Page 8*

TECHNOLOGY

HUNTINGTON Bancshares, Columbus, Ohio, is revamping all its systems to consolidate acquisitions into a seamless branch network. *Page 10*

PEOPLE



MARIO J. ANTOCI, chairman of the revitalized American Savings Bank in Stockton, Calif., has seen hard work pay off in profits. *Page 2*

DEALS

NCNB INVESTMENT Banking Co. gathered investors for an ESOP issue for Square D Co., in the latest deal to use a proprietary funding structure. *Page 22*

OTHER NEWS

DEPOSIT INSURANCE reform is one of the key issues addressed in the annual economic report of the President. *Page 2*

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Thrift Deposits Dip Again, But Industry Gains Capital

By BILL ATKINSON

WASHINGTON — Deposits continued to drain out of the thrift industry in November, regulators said Tuesday, but, in one bright note, there was a modest increase in capital for the first time in nine months.

Net deposit outflows at thrifts not under government conservatorship narrowed to $2.7 billion, the Office of Thrift Supervision said, marking the 11th straight month of outflows. Analysts said that no end to the deposit runoff was in sight.

The outflow compares with a $3.9 billion decrease in October and $7 billion a year earlier.

The 275 thrifts under government control had a net deposit loss of $2.2 billion in November, down from $2.5 billion in October.

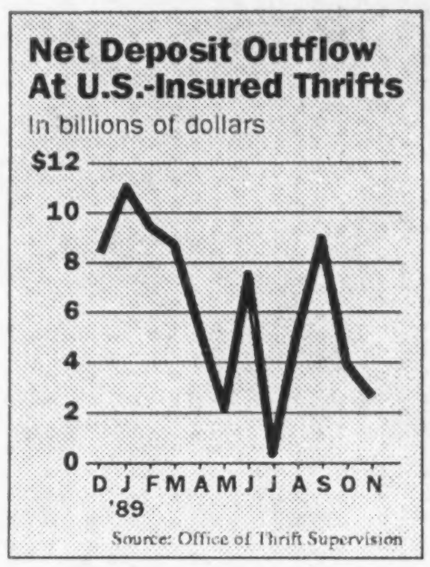
Many S&Ls are selling assets and deposits to shrink their business and raise capital in an effort to meet stringent capital requirements imposed by the thrift-bailout law.

In a sign that that strategy is working, the industry recorded a $167 million increase in capital in November, the first increase since February, when there was a $144 million gain. In the first 11 months of the year, the industry lost $14.3 billion in capital.

While the net deposit outflows appear to be declining, they will undoubtedly continue,

Net Deposit Outflow At U.S.-Insured Thrifts

In billions of dollars



Source: Office of Thrift Supervision

said James Barth, former chief economist of OTS.

"We could see billions of dollars shed by institutions," said Mr. Barth, who now teaches at Auburn. "It is not likely to discontinue anytime soon. There are too many assets and deposits at these institutions and not sufficient capital."

Mr. Barth said he is concerned that many S&Ls will shed prime assets, such as core deposits and branches. "In many cases, those are the only sources of value at the new institution," he said. "As they have to get rid of their best assets first, some of the bloody institutions are going to be hurting themselves."

"When the confidence in the thrift industry is restored, peo-

See **THRIFT** *page* **21**

U.S. Ruling Puts a Dent In Capital Of Citicorp

By TERENCE M. SMITH and JED HOROWITZ

NEW YORK — Federal regulators are requiring Citicorp to boost the amount of capital supporting its municipal bond insurer, AMBAC Indemnity Corp.

Sources said the ruling could force Citicorp to dedicate an additional $600 million in capital to support the unit or be forced to divest it.

Citicorp currently has enough extra capital to cover that amount. But it now has to decide if it wants to use that capital for AMBAC at a time when its cushion against loan losses and other problems is thin.

Citicorp said it was unaware of the ruling and therefore had no comment.

In letters released Wednesday by U.S. Sen. Steve Symms, R-Idaho, the Comptroller of the Currency said the assets of AMBAC must be consolidated onto Citibank's balance sheet when computing its risk-based capital guidelines. The new rules will require bank companies for the first time to reserve against off-balance-sheet risk in the

See **REGULATORS** *page* **9**

Lenders Cut Their Losses on LDC Credits

By JAMES R. KRAUS

NEW YORK — After spending nearly a decade futilely trying to get their money back, major U.S. banks are selling their sour Third World loans at steep losses in order to put the problem behind them.

In the past 36 months, 17 leading U.S. banks have reduced their Third World loan exposures by 31% to $50.7 billion from $73.5 billion, according to Keefe, Bruyette & Woods Inc. Bankers and analysts said the remaining debt will be reduced over the next several years.

"The banks don't like [Third World] borrowers, they don't like the business, and they've decided to get out. They've decided that holding these assets impinges on their market value and have washed their hands of the mess," said Lawrence W. Cohn, a banking analyst with Drexel Burnham Lambert Inc.

To be sure, U.S. banks are paying a hefty price to put their Third World nightmares behind them. They are selling their Third World loans at discounts of 50% to 90%, meaning they are losing anywhere from 50 cents to 90 cents on every dollar loaned out.

But the loan sales actually boost earnings, because banks can claim the losses as deductions on the taxes they pay on their profits. These tax breaks allowed the Bank of America to earn record profits last year, according to Peter McPherson, senior vice president and director of debt restructuring.

The San Francisco-based bank sold $1.4 billion in Third World loans last year, but reported record annual earnings of $1.1 billion.

Among the most aggressive sellers are of Third World loans in the past 36 months are Citicorp, which sold $3.5 billion; BankAmerica, $2.8 billion; Chase Manhattan Corp., $2.2 billion; First Chicago Corp. and

See **U.S.** *page* **9**

Banks Opt for a Lighter Load of LDC Debt

	Reductions since '87 ($ in billions)	Reductions since '87 (% change)	Current exposure ($ in billions)
Citicorp*	$3.5	24%	$11.1
BankAmerica	2.8	27%	7.6
Chase Manhattan	2.2	25%	6.5
J.P. Morgan	1.8	33%	3.6
First Chicago	1.8	58%	1.3
Wells Fargo**	1.8	92%	0.1
Manufacturers Hanover	1.6	17%	7.6
Continental Bank*	1.5	71%	0.6
Bank of New York*	1.4	62%	0.8
Security Pacific**	1.4	64%	0.8

*Medium- and long-term loans only
**Estimate

Source: Keefe, Bruyette & Woods Inc.

PEOPLE *in the news*

Antoci Directs American To Top Profits Among S&Ls

By PHIL ROOSEVELT

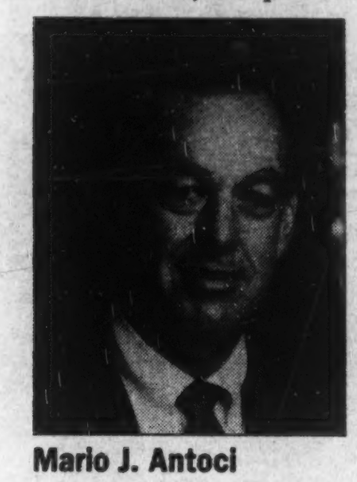
As chairman and chief executive officer of the once-troubled American Savings Bank, Mario J. Antoci says he is working longer, harder hours than ever before in his career.

"But I'm loving it," he says. "We've had a lot of fun this year."

Make that fun *and* profits. The Stockton, Calif., thrift, acquired by the Robert M. Bass Group about a year ago, recently reported eye-popping earnings of $214 million for 1989 – more than any thrift in the country.

It beat the $193.9 million reported last month by H.F. Ahmanson & Co., the parent of Home Savings of America, the nation's largest thrift.

To be sure, comparisons with other thrifts are somewhat misleading. Mr. Antoci, 55, noted in an interview that the $214 million does not reflect taxes. Under terms of the Bass acquisition, the thrift pays no taxes, but rather funnels to the government, from retained earnings, about 75% of what it ordinarily would pay in taxes.



Mario J. Antoci

Also, the $16.3 billion-asset thrift – the so-called "good bank" of the now-defunct American Savings and Loan Association – derives substantial income from an $8 billion loan to the related "bad bank," New West Federal Savings and Loan Association. American's profits also reflected some nonrecurring gains from the sale of loans and securities.

Nonetheless, American has made indisputable progress under Mr. Antoci, who came to the post in December 1988 from the presidency of Los Angeles-based H.F. Ahmanson.

Considered one of the leading authorities on adjustable-rate mortgages, he cranked up American's mortgage originations by about 45% last year, to $2.9 billion. And a further jump to $5 billion is planned this year, Mr. Antoci said.

More important, Mr. Antoci has switched the type of adjustable favored by the thrift to one with a rate that adjusts every month instead of every six months.

"The six-month loan is just wrong for someone who wants to lock in a profitable spread," he said. "You take basis risk when you only adjust every six months."

At the same time, Mr. Antoci has attacked American's cost structure, which he said became bloated as a result of a 1983 merger. General and administrative expenses have declined to 1.7% of assets from 2.2% a year ago, even as the thrift extended its week to offer Saturday banking.

Working with two consulting firms, Mr. Antoci and his team "took a very extensive look at how we run this company from every facet," he said. "And because we had a new management team, no egos were bruised when someone said we should change the way we're doing something. All of us were flexible and willing to change." □

NEWS *briefs*

First Fidelity's Terracciano Aims to Boost Productivity

PHILADELPHIA — First Fidelity Bancorp chief executive Anthony Terracciano said he would take quick action to boost productivity and returns at the regional bank company.

Mr. Terracciano, who became chairman on Feb.1, told a news conference that he would focus on improving First Fidelity's asset quality, productivity, and business mix "and the pace with which we come to grips with these issues will be rapid."

Chase Securities Lays Off 11 During Restructuring

NEW YORK — Chase Manhattan Corp. said its fixed-income securities unit has laid off 11 employees. Chase Securities Inc., which underwrites, trades, and distributes corporate and government debt instruments, has over 200 employees, a Chase spokesman said.

No single area was targeted for the layoffs, which included personnel in sales, repurchase agreements, and trading. All the traders dismissed were involved in government securities.

The spokesman said the layoffs follow a restructuring of the securities unit as well as "expense cuts" within nonstrategic areas. He said some may find other jobs with Chase.

Fed Wins Battle to Force BancTexas to Add Capital

DALLAS — The Federal Reserve Board won a court battle Tuesday that permits it to go ahead with plans to force BancTexas Group Inc. to inject capital into two banking units.

The U.S. District Court for the Northern District of Texas refused to grant BancTexas' request that the Fed be barred from applying its "source of strength" doctrine and require the holding company to bolster its subsidiary banks with capital.

— Barbara A. Rehm

New Deadline in Debit Card Antitrust Case

By YVETTE D. KANTROW

NEW YORK — MasterCard International and Visa U.S.A. have been given another month to consider settling the antitrust suit filed against them last July by 13 state attorneys general.

The extension until March 8 was granted Tuesday by the U.S. District Court for the Southern District of New York.

Since September, the card associations have been mulling a settlement proposal presented by the attorneys general, which sought to prevent MasterCard and Visa from providing a debit card system known as Entree. The attorneys general also wanted MasterCard and Visa to sell their interests in the two national debit card networks, Cirrus System Inc. and Plus System Inc.

Several Extensions

In their settlement offer, the attorneys general said they would drop the lawsuit, including the demand to divest Cirrus and Plus, if MasterCard and Visa agree to abandon Entree and enter no further joint ventures in the debit card field.

The card associations' response to the September settlement offer was originally due to be filed on Nov. 6. The court has since granted several one-month extensions to allow the two sides to continue negotiations.

In the absence of antitrust enforcement by the Justice Department, the state attorneys general joined forces to halt the Entree project. They accused MasterCard and Visa of engaging in a conspiracy to preserve the profitability of credit cards.

Difficult Progress

While MasterCard and Visa have been planning Entree for several years, the system has yet to get off the ground, and the specter of legal action has made progress difficult.

If the card associations accept the settlement offer as originally proposed, Entree would be scrapped, MasterCard could keep its Cirrus subsidiary, and Visa could retain its minority share of Plus. MasterCard and Visa would also be allowed to develop their own electronic debit card systems, but they would have to remain separate.

Officials on both sides of the issue will not disclose details of the behind-the-scenes settlement discussions. □

Bush's Economic Report Raises Reform of Deposit Insurance

By ROBERT TRIGAUX

WASHINGTON — Inefficiencies in the banking system and the need to overhaul the federal deposit insurance system are among the key issues discussed in the annual economic report of the president.

In addressing a wide range of economic issues, the 419-page report, released Tuesday by the White House, partially acknowledges poorly designed policies for contributing to the thrift crisis. But it also warns that the banking industry has serious obstacles to overcome – including a lack of funding discipline.

Deposit insurance, which is now being studied by the Treasury Department, has helped prevent public panics, but it also has encouraged excessive risk-taking by institutions that do not have enough of their own capital at stake, the report said. Deposit insurance also allows banks to continue raising funds even when the funds are being devoted to "activities that are not economically viable," the report states.

One result is that the recent deterioration of credit quality may actually be systemic, and not reflect one-time shocks or problems in specific sectors or geographic regions, according to the report.

"Banks have suffered from more bad loan experiences but in the aggregate have not received increased compensation from borrowers," the report said.

The use of risk-based deposit insurance, the report suggests, would give banks more incentives to weight their costs against their choice of investments. Reform of deposit insurance, as well as the repeal of the Glass-Steagall Act, which separates commercial and investment banking, must be considered in a larger effort to modernize the financial system, the report stated. □

Corrections

A Feb. 2 story ("Ranieri Group to Acquire Mortgage Origination Network," page 11) incorrectly stated the roles of two companies that have been helping sell parts of Commonwealth Mortgage Corporation of America, Houston. Hamilton, Carter, Smith & Co., Los Angeles has been assisting in the sale of the company's origination network. A unit of Countrywide Credit Industries, Pasadena, Calif., has been assisting in the sale of certain mortgage servicing rights.

■

A Jan. 30 story ("Louisiana's Hibernia, Eager to Add Texas Franchise, Takes a New Step," page 1) misstated the federal agency involved in the sale of BancTexas Dallas and incorrectly reported terms of the deal. Hibernia Corp. received $69 million from the Federal Deposit Insurance Corp. to assume all the assets and most of the liabilities of BancTexas Dallas. □

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